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U.S. Interstate Commerce Commission

Tentative valuation by Interstate Commerce...

Philadelphia, Pa.

[1916]

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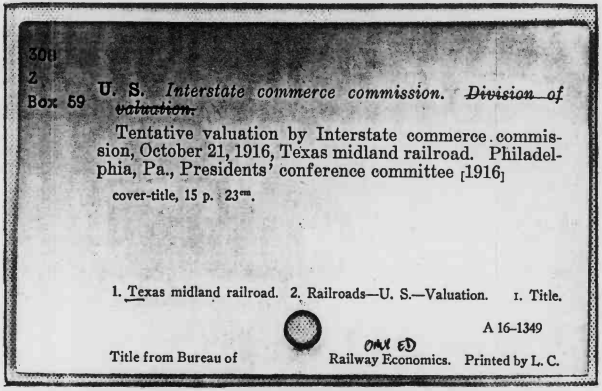

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Tentative valuation by Interstate commerce commission, October 21, 1916, Texas midland railroad. Philadelphia, Pa., Presidents' conference committee [1916]

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TENTATIVE VALUATION

BY

INTERSTATE COMMERCE COMMISSION

OCTOBER 21, 1916

TEXAS MIDLAND RAILROAD

PRINTED BY
GENERAL SECRETARY
PRESIDENTS' CONFERENCE COMMITTEE
937 COMMERCIAL TRUST BUILDING
PHILADELPHIA, PA.

INTERSTATE COMMERCE COMMISSION.

OFFICE OF THE SECRETARY.

WASHINGTON.

OCTOBER 21, 1916.

Valuation Docket No. 2.

HON. THOS. WATT GREGORY,
Attorney-General of the United States,
Washington, D. C.

HON. JAMES E. FERGUSON,
Governor, State of Texas,
Austin, Texas.

TEXAS MIDLAND RAILROAD,
Terrell, Texas.

RAILROAD COMMISSION OF TEXAS,
Austin, Texas.

You are hereby notified that the Interstate Commerce Commission has completed under the Act of March 1, 1913, a tentative valuation of the Texas Midland Railroad, and that the valuation placed upon the property of that carrier as of June 30, 1914, is as follows:

Upon road and equipment, exclusive of lands:

ROAD.

Wholly owned:	
Cost of reproduction new	$2,601,289
Cost of reproduction less depreciation	2,007,708
Jointly owned:	
With Houston & Texas Central, one-half each, Texas Midland proportion	1,007
Less depreciation	777
With Texas & New Orleans, one-half each, Texas Midland proportion	1,269
Less depreciation	880
With St. Louis Southwestern of Texas and Missouri, Kansas & Texas of Texas, one-third each:	
Texas Midland proportion	1,652
Less depreciation	1,133
With St. Louis Southwestern of Texas, one-half each:	
Texas Midland proportion	18,023
Less depreciation	15,418

EQUIPMENT.

Cost of reproduction new $582,071
Cost of reproduction less depreciation 362,940

GENERAL EXPENDITURES.

Cost of reproduction new $176,693
Cost of reproduction less depreciation 138,561

TOTAL.

Cost of reproduction new $3,382,004
Cost of reproduction less depreciation 2,527,417

Summary sheets are attached and made a part hereof showing the distribution of the above amounts by primary accounts.

LAND.

1862.52 acres owned and used for transportation purposes $236,689.65
75.87 acres not held for transportation purposes and structures thereon 8,619.40
Original cost of road could not be found.
Original cost of equipment now in existence 528,874.59
Original cost of 1,369.91 acres purchased 68,232.41
Original cost of 492.61 acres donated—cost to donors 43,103.75

No other values or elements of value were found to exist.

The Texas Midland Railroad received aids and donations, including gifts of right of way, amounting to $69,885.51, not including contributions of Hetty R. Green.

You are required to file with the Commission at its office in Washington within thirty days from the first day of November, 1916, any protest which you may desire to make to said valuation or any part thereof. You will file in connection with such protest a specification setting forth in detail the particular things against which such protest is directed.

The tentative report is served as a part of this notice. Detailed engineering, accounting, and land reports have already been furnished to the Texas Midland Railroad and the Railroad Commission of Texas and are on file in the office of the Commission in Washington subject to examination by any interested party.

By the Commission.

(Signed) GEORGE B. McGINTY,
Secretary.

TEXAS MIDLAND RAILROAD.

SUMMARY SHEET.

Wholly Owned and Used.

R.&E. Acct. No.	Classes	Cost of Reproduction of Road and Equipment	
		New	Less Depreciation
	I. ROAD.		
1	Engineering	$54,926	$49,807
3	Grading	411,866	411,471
6	Bridges, trestles and culverts	387,792	289,461
8	Ties	272,688	136,345
9	Rails	525,134	434,205
10	Other track material	103,295	65,944
11	Ballast	210,637	168,509
12	Track-laying and surfacing	207,502	140,642
13	Right-of-way fences	48,443	33,911
15	Crossings and signs	29,565	23,217
16	Station and office buildings	109,319	79,965
17	Roadway buildings	27,004	17,491
18	Water stations	30,428	22,267
19	Fuel stations	7,675	5,383
20	Shops and enginehouses	68,155	51,447
26	Telegraph and telephone lines	130	112
27	Signals and interlockers	9,834	7,619
29	Power-plant buildings	6,474	5,308
32	Power-distribution systems	1,867	1,253
35	Miscellaneous structures	84	◗ 29
37	Roadway machines	2,306	1,404
38	Roadway small tools	2,295	1,263
43	Other expenditures—road	5,528	4,091
44	Shop machinery	57,333	41,430
45	Power-plant machinery	21,009	15,134
	Total, 1 to 47, inclusive	$2,601,289	$2,007,708
	II. EQUIPMENT.		
51	Steam locomotives	$187,928	$107,643
53	Freight-train cars	190,432	120,423
54	Passenger-train cars	73,455	39,236
55	Motor equipment of cars	57,020	53,769
57	Work equipment	73,236	41,869
	Total, 51 to 58, inclusive	$582,071	$362,940
	III. GENERAL EXPENDITURES.		
71	Organization expenses	$831	$831
72	General officers and clerks	15,000	15,000
73	Law	9,100	9,100
74	Stationery and printing	1,100	1,100
75	Taxes	5,971	4,478
76	Interest during construction	144,691	108,052
	Total, 71 to 77, inclusive	$176,693	$138,561
	Grand total, 1 to 77, inc.	$3,360,053	$2,509,209

TEXAS MIDLAND RAILROAD.

SUMMARY SHEET.

Jointly Owned and Used with Missouri, Kansas & Texas Railway Company of Texas and St. Louis Southwestern Railway Company of Texas—One-half Each.

R.&E. Acct. No.	Classes	Cost of Reproduction of Road and Equipment	
		New	Less Depreciation
	I. ROAD.		
3	Grading	$163	$163
6	Bridges, trestles and culverts	921	552
8	Ties	753	377
9	Rails	1,450	1,210
10	Other track material	672	401
11	Ballast	246	197
12	Track-laying and surfacing	716	472
15	Crossings and signs	35	26
	Total, 1 to 47, inclusive	$4,956	$3,398
	Texas Midland portion	$1,652	$1,133

TEXAS MIDLAND RAILROAD.

SUMMARY SHEET.

Jointly Owned and Used with St. Louis Southwestern Railway Company of Texas—One-half Each.

R.&E. Acct. No.	Classes	Cost of Reproduction, New	Cost of Reproduction, Less Depreciation
	I. ROAD.		
3	Grading	$2,027	$2,027
6	Bridges, trestles and culverts	483	350
8	Ties	1,857	929
9	Rails	3,543	3,019
10	Other track material	1,072	713
11	Ballast	707	566
12	Track-laying and surfacing	1,382	949
15	Crossings and signs	2,038	1,485
16	Station and office buildings	18,146	16,294
18	Water stations	4,790	4,503
	Total, 1 to 47, inclusive	$36,045	$30,835
	Texas Midland portion	$18,023	$15,418

TEXAS MIDLAND RAILROAD.

SUMMARY SHEET.

Jointly Owned and Used with Houston & Texas Central Railroad—One-half Each.

R.&E. Acct. No.	Classes	Cost of Reproduction of Road and Equipment	
		New	Less Depreciation
	I. ROAD.		
3	Grading	$190	$190
6	Bridges, trestles and culverts	140	105
8	Ties	384	192
9	Rails	850	722
10	Other track material	107	86
12	Track-laying and surfacing	213	153
15	Crossings and signs	129	106
	Total, 1 to 47, inclusive	$2,013	$1,554
	Texas Midland portion	$1,007	$777

TEXAS MIDLAND RAILROAD.

SUMMARY SHEET.

Jointly Owned and Used with Texas & New Orleans Railroad—One-half Each.

R.&E. Acct. No.	Classes	Cost of Reproduction, New	Cost of Reproduction Less Depreciation
	I. ROAD.		
3	Grading	$312	$312
6	Bridges, trestles and culverts	617	388
8	Ties	441	221
9	Rails	521	452
10	Other track material	359	203
11	Ballast	37	30
12	Track-laying and surfacing	250	153
	Total, 1 to 47, inclusive	$2,537	$1,759
	Texas Midland portion	$1,269	$880

TENTATIVE REPORT.

TEXAS MIDLAND RAILROAD.

The Texas Midland Railroad is located entirely within the State of Texas. It extends from Ennis to Greenville, a distance of 74 miles, and from Commerce to Paris, a distance of 38 miles, making a total main line mileage of 111 miles. The tracks of the St. Louis Southwestern Railway Company of Texas between Greenville and Commerce, a distance of 14 miles, are used under a trackage arrangement to unite the two pieces of the Texas Midland above mentioned and thereby establish a through operating line from Ennis to Paris, a distance of approximately 125 miles. The Texas Midland also has yards and side tracks aggregating 37 miles. In giving the above figures fractions are disregarded.

This road runs through a fertile agricultural country and has upon its lines several towns of considerable size. No mines and but little manufacturing are tributary to it.

CORPORATE HISTORY.

The Texas Midland Railroad is owned and operated by a corporation also styled the Texas Midland Railroad, which was incorporated under the laws of Texas December 16, 1892, and has its principal office at Terrell in that State. The Texas Central Railroad Company had constructed, soon after its incorporation in 1879, a line of railroad extending from Garrett in a northerly direction through Midland Junction to Roberts, a distance of about 52 miles. This road was not connected with the main line of the Texas Central, was known as the Northeastern Branch, and will be designated in this report as the Branch.

In 1891 the Texas Central Railway, including the Branch, was sold under foreclosure proceedings to a committee acting for the bondholders. Mrs. Hetty R. Green owned 750 of these bonds and she subsequently made an arrangement by which the Branch was transferred to her in lieu of her interest in the entire property and for other considerations. This arrangement by which she acquired the title to the Branch was concluded in

January, 1893, and soon afterwards the property was turned over to the Texas Midland Railroad, which had previously been organized for that purpose.

Soon after acquiring the Branch the Texas Midland Railroad began the improvement of that piece of road and the construction of other pieces of road, all of which finally resulted in the present railway. The property finally assumed its present form about October 1, 1896, except that during the fiscal year ending June 30, 1898, the Texas Midland Railroad abandoned that portion of its line extending from Garrett to Midland Junction, 1.93 miles in length.

FINANCIAL HISTORY.

As a part of the transaction by which the Texas Midland Railroad acquired the Branch the following stocks and bonds of that company were issued:

May 23, 1893, capital stock, par value	$500,000
July 27, 1893, first mortgage 5% betterment bonds, par value	150,000
July 27, 1893, second mortgage 5% purchase money bonds, par value	750,000
Total	$1,400,000

As a part of the same transaction Mrs. Green conveyed to the Texas Midland Railroad the Branch and paid to it $75,000 in cash.

As already noted the Texas Midland Railroad soon after it acquired the Branch proceeded to construct the remainder of its present railroad. The money for this purpose was furnished by Mrs. Green acting under the name, as to most transactions, of the Texas Midland Construction Company. In this way previous to August, 1908, she had advanced approximately $1,746,931.33.

In August, 1908, the capitalization of the Texas Midland Railroad was recast by canceling 3880 of the 5000 shares of capital stock and by retiring all of the $900,000 of bonds which had previously been issued. A new mortgage bearing interest first at the rate of 4½ per cent., but subsequently at the rate of

4 per cent. to the amount of $2,000,000 was issued. This left the capitalization of that company as follows:

Capital stock, par value	$112,000
Mortgage indebtedness, 4 per cent.	2,000,000
Total	$2,112,000

The foregoing has ever since continued to be and now is the capitalization of the company.

At the time of the readjustment of the capitalization as above there was canceled of the indebtedness of the Texas Midland Construction Company all but $500,000, which has never been paid and which constitutes a deferred liability of that amount and is really a part of the capitalization of the company.

GROSS AND NET EARNINGS.

The Texas Midland Railroad opened its books and began to transact business on February 26, 1893, and from that date to and including June 30, 1914, its gross earnings from operation and its operating expenses were:

Gross earnings	$9,939,298.80
Operating expenses	8,539,431.88
Leaving net earnings	$1,399,866.92
During the same period taxes assessed against the Texas Midland aggregated	274,367.20
Leaving a net income of	$1,125,499.72
To this should be added income from non-operating sources of	1,504.22
Making gross income for the period	$1,127,003.94
During this period the Texas Midland paid rents and balance for hire of equipment	353,936.95
Leaving for the payment of interest and dividends during this period	$773,066.99

INTEREST.

During the same period interest accrued to the amount of $1,152,107.50. Deducting the amount available as above, $773,066.99, there remains a deficit of $379,040.51.

In the above computation of interest nothing has been allowed on the advances by the Texas Midland Construction Company nor on the aforesaid sum of $500,000.

It must be remembered, however, that the stocks and bonds of the Texas Midland Railroad were originally issued almost entirely for property, and it would by no means follow that in justice that company ought to pay the interest provided for in these bonds, since the mortgage may have exceeded the value of the property. Mrs. Green has apparently continued to be the virtual owner of this property from the first, and it may be instructive to inquire what she has put into the enterprise in money and what she has taken out.

No records whatever have been discovered which throw any light upon the cost of constructing the Branch, and the actual cost of that property is therefore entirely unknown. The entire liability against the Texas Central upon which that property was sold consisted of 3399 $1000 bonds, of which Mrs. Green owned 750. There is nothing in this record which tends to show how much she paid for those bonds nor how much they had cost her, taking account of interest, at the time when she turned over the Branch to the Texas Midland Railroad.

The Texas Central was sold at foreclosure sale to trustees for the bondholders who after paying the expenses of the sale and some other incidentals, had remaining for distribution among the bondholders the sum of $151.37 for each $1000 bond. Mrs. Green's share of the sum so held for distribution as the owner of 750 bonds was $113,527.50. In addition to surrendering her 750 bonds she paid to the trustees the sum of $75,000 in cash so that if the price at the foreclosure sale is to be taken as determining the cost of the Branch, the figure would apparently be $188,527.50. There was an agreement which might possibly involve the payment of some further sum upon her part and she acquired in addition to the Branch an interest in certain lands which were not passed to the Texas

Midland Railroad with the railroad itself, but there is nothing in the record from which the balance of these transactions can be shown and they are not apparently of great significance either way.

It may be said therefore that if the transaction is to be treated as beginning with the foreclosure sale, and if the purchase price of that sale is held as fairly indicative of the value of the property, then the transfer of the Branch by Mrs. Green to the Texas Midland Railroad was fairly equivalent to the payment of $188,527.50 to that company. She subsequently paid in cash through the Texas Midland Construction Company $1,658,762.90. She still further paid through the Chemical National Bank of New York $88,168.43, and she also paid for equipment which was used by the company, another $88,681.17.

So far as the books disclose Mrs. Green had up to June 30, 1914, never received directly or indirectly anything from the Texas Midland Company, except that $115,650.59 of her advances through the Texas Midland Construction Company had been returned in cash or materials and she had been paid interest on bonds amounting to $334,596.26.

Her transactions with the company may be summarized as follows:

PAYMENTS BY MRS. GREEN.

Purchase price of 52.06 miles of railroad	$188,527.50
Advances through Chemical National Bank	88,168.43
Advances by Texas Midland Construction Co	1,658,762.90
For freight cars	88,681.17
Cash 1st Mortgage Bonds	75,000.00
Total	$2,099,140.00

PAYMENTS TO MRS. GREEN.

Advances from Construction Company repaid	$115,650.59
Interest on Texas Midland bonds	334,596.26
Total	$450,246.85
Difference	$1,648,893.15

Both the actual cost of constructing the Branch and its real cost to Mrs. Green probably exceeded the amount carried in the above statement. It should also be remembered that most of the above expenditures were previous to October, 1896, and that since that time nothing in the way of interest has been paid except as above.

ORIGINAL COST TO DATE.

An attempt was made by the accountants of the Commission to show as required by the statute the original cost to date of each piece of property in detail. For this purpose every voucher of the Texas Midland Railroad was examined and an attempt made to rewrite the investment account of that company according to present accounting rules of the Commission. The result has not been satisfactory. It was possible to correct many errors, but there were also many instances in which the voucher could not be allocated with reasonable certainty. Great difficulty was experienced in determining what should be written out of the account by reason of retirements of worn-out and abandoned property. For example, there was no way of showing the cost of the piece of road between Garrett and Midland Junction, which was abandoned, and in fact nothing was taken from the investment account with respect to this item. No information was available, as already stated, as to cost of constructing the 52 miles known as the Branch. It was possible to identify the equipment now in existence and show the cost of that, and also to show original cost of lands with reasonable certainty, but to attempt a statement of the original cost of particular structures or by primary accounts or even of the property as a whole would be entirely misleading.

The total book investment in road and equipment as shown by the findings of the accountants of the Commission is $3,474,490.91, but it should be remembered that this amount includes the $1,250,000 of securities originally issued for the purchase of the Branch and that nothing has been allowed for depreciation.

The original cost of equipment now in existence as shown by the accountants was $528,874.59. The cost of reproducing these same units of equipment as shown by the report of our engineers is $582,071. In comparing the present reproductive

cost with the original cost as shown by the accounting report, it must be borne in mind that our accountants were not able to assign the greater part of the improvements which must have been made to this equipment, a large part of which was purchased previous to 1898.

The original cost of lands as ascertained by the accountants will be stated later in connection with the present value of operative right-of-way and station grounds.

AIDS, GIFTS, GRANTS OF RIGHT-OF-WAY AND DONATIONS.

The right-of-way of the Texas Midland Company was largely donated by citizens of Ennis, Greenville, Commerce, Cooper, and Paris, these being the principal towns which the road serves. For the most part these lands were purchased with money contributed by the citizens, the lands themselves being deeded to the railroad company. Certain sums of money were also given to the company. The amounts of these donations are as follows:

Lands for right-of-way by certain individuals	$43,103.75
Lands other than for right-of-way purposes	5,670.00
Money contributed by citizens	19,981.46
Total	$68,755.21
Individuals and companies contributed for industrial tracks which are included in the reproduction cost of this property	$1,130.30

Certain concessions were also made to the Texas Midland Railroad by Mrs. Green and her son which should be referred to here although not perhaps properly donations. These were:

Interest coupons surrendered for cancellation	$121,241.96
Advances by Texas Midland Construction Company canceled	778,219.71
100 box cars given by Mrs. Green	88,681.17
Expenses E. H. R. Green to St. Louis	250.00
Freight charges on coal donated by Mrs. Green	731.95
Total	$989,124.79

In addition to this it should be noted that no interest was reckoned upon the advances of the Texas Midland Construction

Company, and that since the settlement with that company in 1908, at which time these advances were reduced to $500,000, no interest has been reckoned or paid upon that amount.

A financial report, marked Exhibit A, is made a part of this report. The facts therein given are found to be as stated.

COST OF REPRODUCTION NEW.

A report giving in detail a complete inventory of the property of the Texas Midland Railroad exclusive of lands, held for transportation purposes, together with the cost of reproducing the said property new and the same cost less depreciation. That report is marked "Exhibit B" and is made a part of this report. The facts set forth therein are found to be as stated.

From this report it appears that the total cost of reproducing new the property of this company used for common-carrier purposes, exclusive of lands and rights of way, is $3,382,004, and that the cost of the same items less depreciation is $2,527,417.

LANDS AND RIGHTS OF WAY.

The Texas Midland Railroad uses for transportation purposes 1862.52 acres of land of the present value of $236,689.65 divided between city and country as follows:

	Acres	Present Value
Urban lands	162.47	$113,226.90
Rural lands	1700.05	123,462.75
Total	1862.52	$236,689.65

It owns lands which it does not use for common-carrier purposes as follows:

	Acres	Present Value
Urban lands	35.87	$5,979.40
Rural lands	40.00	2,640.00
Total	75.87	$8,619.40

It also occupies of streets and alleys which have been vacated by municipal or other ordinances and the exclusive use given over to the carrier, the following:

	Acres	Present Value
Urban lands	16.42	$10,403.40

Of these lands the following were donated:

	Acres	Value at Time of Donation	Present Value
Carrier lands	492.62	$25,510.25	$62,667.38
Non-carrier lands	34.76	2,701.80	5,386.00
Total	527.38	$28,212.05	$68,053.38

The original cost of lands purchased by the Texas Midland Railroad as ascertained by our land section was as follows:

	Acres	Original Cost	Present Value
Carrier lands	1369.90	$68,232.41	$174,022.27
Non-carrier lands	41.11	3,665.50	3,233.40
Total	1411.01	$71,897.91	$177,255.67

It will be noted that our land section reports the value of donated lands at the time of the donation as $25,510.25, while our accountants report the original cost of these same lands as $43,103.75. Certain communities had agreed to contribute a portion of the right of way and in the execution of this agreement had purchased and paid for with money contributed by them the lands in question. The amount reported by our accountants is the sum actually paid for these lands by these communities.

Our land forces, in determining the value of these lands at the time they were donated, estimated the value of similar

adjacent and adjoining lands and multiplied the acres donated by this price. Such method of procedure disregards entirely those elements of damage aside from the mere value of the land which frequently enter into the price paid when a strip of land is acquired for railroad right of way.

The books of the carrier show certain expenses aggregating $706.01, in connection with the acquisition of its lands for right of way purposes at the time the road was constructed. This amount is mainly for recording deeds and for preparing abstracts of title. It cannot be affirmed that this is the only expense incurred by the Texas Midland in the acquisition of these lands and it seems probable that such is not the case since nothing is included for personal services.

Except as above, there is nothing in the records of the carrier from which the original cost of acquiring its lands can be determined nor is there any other source of information from which this fact can be ascertained. Neither is it possible to state what would be the present cost of acquiring, either by purchase or by condemnation, these same lands.

The Texas Midland Railroad had on hand June 30, 1914, materials and supplies of the value of $96,857.19. This amount is not included in the cost of reproduction now above given.

The Texas Midland Railroad claims an allowance for other values and elements of value in the following particulars:

(*a*) Going concern value.
(*b*) Connection with other lines.
(*c*) Good station locations.
(*d*) Gradients.

No evidence bearing upon this claim was presented by the carrier and upon the record the Commission is unable to find that this carrier is entitled to any allowance in the above particulars.

WASH # 21388

END OF
TITLE